

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

JULY 2000 VOLUME XXI NO. 1

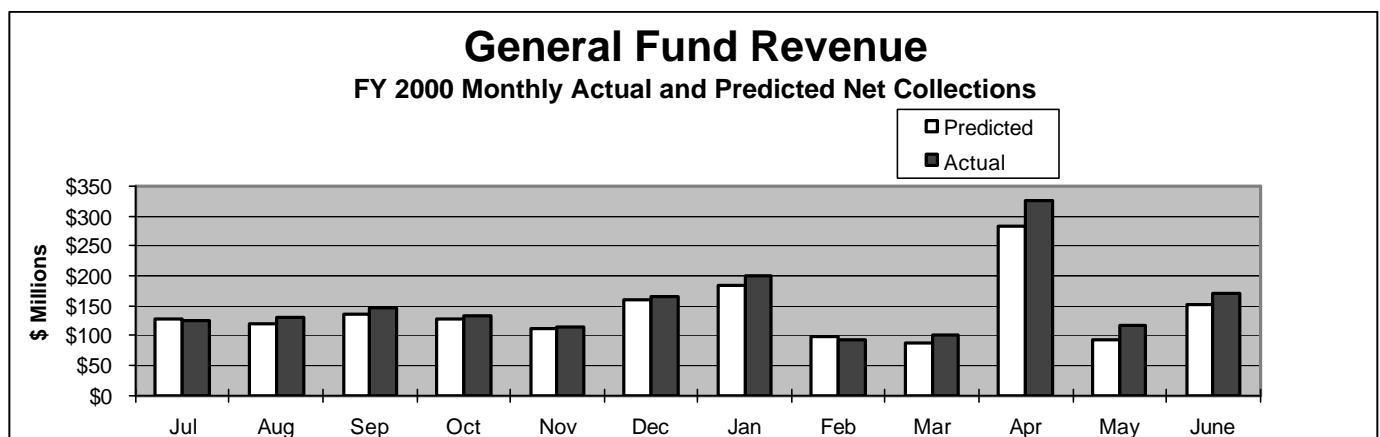
In the Chips: After a few false starts, it appears that the global chip market is rebounding—welcome news for Idaho's high-tech sector. The fallout from the Asian economic crises caused this sector's employment to suffer a 0.6% retreat in 1999. The last time this sector's employment declined was in 1986, when another down cycle caused Idaho high-tech payrolls to shrink by more than 10%. These numbers show how resilient the Gem State's high-tech industry has become over the years. For example, the recent industry slump began in 1996, yet Idaho high-tech employment continued expanding until 1999. This resilience to downturns partly reflects the strength of Boise's two high-tech giants. Hewlett-Packard's employment has been stable because the company has refocused its Boise site's mission towards research and development and away from manufacturing since the mid-1990s. Thus, its employment is less influenced by industry cycles. Micron Technology manufactures computer memory devices and is more sensitive to these cycles. However, the company has been able to avoid major layoffs over the last few years because it is the world's lowest-cost producer of memory chips. This has allowed the company to earn a profit despite the worldwide slump in memory prices. Micron has also successfully broadened both its product line and customer base to help spread its risks, further enabling the company to weather industry downturns.

Several factors suggest Gem State high-tech payrolls will once again expand. First, the economic recovery in Asia is underway, and this should fuel the demand for electronic components. Second, domestic real spending on equipment and software is forecast to jump 23.7% this year. The improving demand situation should help sop up the excess supply that has kept chip prices low. There is evidence that the recovery is already underway. Idaho high-tech employment advanced at a 5.7% annual rate during the first quarter of 2000. Less than a year after opening the doors of its new Treasure Valley plant, Jabil Circuit, Inc. has announced plans to double its manufacturing space—an expansion that is in response to anticipated industry growth. This move will also add up to 800 new jobs over the next several years, boosting the site's employment to about three times its initial level. Jabil began its Idaho operations about two years ago when it acquired the assets (and employees) of Hewlett-Packard's former manufacturing operations.

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The sales tax was \$0.8 million higher than predicted in June, bringing the fiscal year surplus to \$9.9 million. Only two months (October and January) had lower-than-expected sales tax collections during FY 2000. This consistent over-performance is in line with the revision to the employment data for Idaho, and may be masking what would otherwise be erosion of the sales tax base as electronic commerce (that is largely untaxed) displaces the bricks and mortar commerce (that is largely subject to tax collection).

The product taxes were \$0.1 million higher than expected in June, and \$0.2 million higher than the forecast for the fiscal year. Miscellaneous revenues were \$5.4 million above the predicted amount for the month, the largest excess of the entire fiscal year. This brings the full year's surplus in the miscellaneous revenue category to \$9.1 million. The largest single source of this excess is Treasurer's interest earnings that were \$3.9 million higher than projected. Unclaimed property receipts were \$1.4 million higher than anticipated, and the insurance premium tax was \$1.2 million higher than the forecast for the fiscal year.



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General Fund Update

As of June 30, 2000

Revenue Source	\$ Millions			
	FY99	FY00 Executive Estimates ¹		FY00
	Actual	Dec. 98	Dec. 99	Actual
Individual Income Tax	841.9	862.6	892.2	960.2
Corporate Income Tax	95.4	113.3	99.3	124.9
Sales Tax	588.8	603.2	617.6	627.5
Product Taxes ²	15.8	15.5	15.8	16.0
Miscellaneous	82.6	62.8	83.4	92.5
TOTAL GENERAL FUND ³	1,624.4	1,657.4	1,708.4	1,821.0

1 Executive estimate as adjusted for 2000 legislative action
2 Product Taxes include beer, wine, liquor, and cigarette taxes
3 May not total due to rounding

General Fund revenues were \$17.4 million higher than expected in June, and ended the fiscal year a remarkable \$112.8 million ahead of the current Executive Forecast. Two principal factors underlie this exceptional revenue performance: first, the income tax has been boosted by the strength of the stock market. This factor has impacted virtually every state (and the federal government) that levies an income tax, and is manifest in the form of realized capital gains, exercised stock options, and bonuses. Second, Idaho's employment picture has changed dramatically since the current FY 2000 General Fund revenue forecast was prepared (in December 1999). Instead of slowing in 1999 (as originally reported), Idaho nonfarm wage and salary employment actually accelerated. This has yielded a much broader tax base than the FY 2000 revenue forecast was based upon.

Individual income tax was \$5.9 million higher than projected in June, and finished the fiscal year \$68.0 million higher than anticipated. Over \$36 million of the fiscal year's income tax surplus was due to higher-than-expected filing payments. This is primarily due to the first factor cited above, but the stronger-than-forecasted employment figures in Idaho also contributed. Withholding collections were more than \$20 million higher than anticipated for the year, and at first glance this should be primarily explained by the second factor cited above. However, a sizable portion of this surplus was due to bonuses. In fact, \$7 million of this was attributable to bonuses paid in just one month – April 2000. Refunds also contributed to the income tax surplus, with approximately \$8 million less paid than were expected.

The June 2000 corporate income tax was \$5.1 million higher than forecasted, bringing the full fiscal year excess to \$25.6 million. The entire source of the strength in the corporate income tax was from quarterly estimated payments that exceeded the anticipated amount by almost \$40 million. This was partially offset by filing payments that came in nearly \$10 million lower than expected for the full fiscal year, and refund payments that were \$5 million higher than expected.

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